

**Nonrecourse Marketing Assistance Loan and Loan Deficiency Payment Program****Overview**

Marketing assistance loans provide producers interim financing at harvest time to meet cash flow needs without having to sell their commodities when market prices are typically at harvest-time lows. Allowing producers to store production at harvest facilitates more orderly marketing of commodities throughout the year.

Marketing assistance loans for covered commodities are nonrecourse because the commodity is pledged as loan collateral and producers have the option of delivering the pledged collateral to the Commodity Credit Corporation (CCC) as full payment for the loan at maturity. Market loan repayment provisions specify, under certain circumstances, that producers may repay loans at less than principal plus accrued interest and other charges. Alternatively, loan deficiency payment (LDP) provisions specify that, in lieu of securing a loan, producers may be eligible for an LDP. For ELS cotton, LDP provisions do not apply and marketing assistance loans must be repaid at the loan rate plus interest.

Marketing assistance loan repayment and LDP provisions are intended to prevent delivery of loan collateral to CCC, minimize accumulation of CCC-owned stocks, and allow U.S. produced-

commodities to be marketed competitively. Accumulating CCC-owned stocks tends to make U.S.-produced commodities less competitive in world markets and can result in substantial storage costs to taxpayers.

The Farm Security and Rural Investment Act of 2002 (Sections 1201-1209), Public Law 107-171 (2002 Act) continues nonrecourse marketing assistance loan and LDP provisions of previous legislation. The 2002 Act provides for nonrecourse marketing assistance loans and LDPs for the 2002-2007 crops of wheat, corn, grain sorghum, barley, oats, soybeans, other oilseeds (including sunflowers, canola, safflower, flaxseed, rapeseed, mustard seed, crambe and sesame), rice, upland and Extra Long Staple (ELS) cotton, peanuts, honey, wool, mohair, dry peas, lentils, and small chickpeas.

Eligibility Requirements

To be eligible for marketing assistance loans and LDPs producers must:

- (1) comply with conservation and wetland protection requirements;
- (2) report how they use their cropland acreage on the farm;
- (3) have beneficial interest in the commodity on the date the loan or LDP is requested and, in the case of a loan, retain beneficial

- interest while the loan is outstanding; and
- (4) ensure that the commodities meet CCC minimum grade and quality standards.

Nonrecourse Marketing Assistance Loans**Loan Rates**

The 2002 Act sets national average loan rates at the levels shown in Table 1. **(See Table 1. National Average Loan Rates, 2002-2007 Crops per production unit).**

Local loan rates are based on each commodity's national average loan rate, and they:

- vary by county;
- are based on the county where the commodity is stored; and
- may be adjusted by CCC with premiums and discounts to reflect quality factors.

Settling Loans

Loans mature on the last day of the ninth calendar month following the month in which the loan is approved. A producer may settle an outstanding nonrecourse loan:

- during the loan period by repaying the loan; or
- upon maturity by forfeiting the commodity to CCC.

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A producer may repay a marketing assistance loan any time during the loan period at the lesser of the:

- loan rate plus accrued interest and other charges; or
- alternative loan repayment rate CCC determines.

For all loan eligible commodities (except upland cotton, ELS cotton, and rice), the alternative loan repayment rate is the CCC determined market price.

For wheat, feed grains, and oilseeds, the CCC determined local market price is often referred to as the posted county price (PCP). PCP's are established and available at each local USDA Service Center. Generally, PCP's are based upon market prices at appropriate U.S. terminal markets, adjusted to reflect quality and location. PCP's are announced daily for wheat, feed grains, and soybeans; and weekly for other oilseeds.

For peanuts, CCC determines national posted prices for four types of peanuts and announces them weekly. For wool, CCC determines regional posted prices based on micron lengths and announces them weekly. For mohair, CCC determines and announces a national posted price weekly.

For upland cotton and rice, the alternative repayment rate is the prevailing world market price (adjusted to U.S. quality and location), often referred to as the AWP. AWP's are announced weekly.

For ELS cotton, a producer must repay a loan at the loan rate plus accrued interest and other charges.

Marketing Loan Gains

A producer realizes a marketing loan gain if the loan is repaid at less than the loan principal. The marketing loan gain rate equals the amount by which the applicable loan rate exceeds the loan repayment rate.

Commodity Certificates

Commodity certificates are available to producers to exchange for 2002- through 2007-crop collateral pledged to CCC for a commodity loan. Commodity certificates will be available for sale at USDA Service Centers to producers with outstanding nonrecourse marketing assistance loans. The exchange rate will be the PCP or AWP (upland cotton and rice) on the date the commodity certificate is purchased. Commodity certificate exchanges will not be available when the exchange rate exceeds the applicable loan rate. Realized gains from the certificate exchange, also called certificate exchange gains, equal the amount by which the loan rate exceeds the PCP. For further information, see the FSA Fact Sheet Commodity Certificates, contact a local USDA Service Centers, or visit the FSA Web site at: www.fsa.usda.gov

Premiums and Discounts

Premiums and discounts are determined according to the grade and quality of a specific quantity of a

commodity that a producer pledges as loan collateral. Premium and discount schedules vary considerably by commodity and are applied to the loan rate in the county where the commodity is stored. On a per-unit basis, premiums are added to and discounts are subtracted from the loan rate when the loan is made. With the exception of ELS cotton, the same premiums and discounts applied to the loan rate when the loan is made also apply to the loan repayment rate if a producer chooses to repay the loan.

Interest

The interest rate charged on a commodity loan is set at 1 percentage point above CCC's cost of borrowing from the U.S. Treasury at the time the loan is made. Section 163 of the Federal Agricultural Improvement and Reform Act of 1996 Act (7 USC 7283) requires the additional 1 percentage point. Once a loan is made, the rate is fixed except that the interest rate for loans outstanding on January 1 is adjusted to reflect CCC's cost of borrowing on January 1, plus 1 percentage point.

Accrued interest is the amount of interest that accrues while a loan is outstanding, starting with the day the loan is made. Accrued interest is calculated as: (i) the applicable interest rate times (ii) the ratio of the number of days under loan (starting with the initial day and continuing through the day prior to the day a loan is repaid) to the number of days in a year (i.e., 365) times (iii) the loan principle.

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Loan Deficiency Payments

A producer who is eligible to obtain a loan, but who agrees to forgo the loan, may obtain an LDP. The LDP rate equals the amount by which the applicable loan rate where the commodity is stored exceeds the alternative loan repayment rate for the respective commodity. The LDP equals the LDP rate times the quantity of the commodity for which the LDP is requested. Table 2 provides an example of how corn marketing loan gains and LDPs are calculated.

See Table 2. Corn Marketing Loan Gain/Loan Deficiency Payment Examples

OTHER REQUIREMENTS

Beneficial Interest

A producer retains beneficial interest in the commodity if all of the following remain with the producer:

- **Control of the commodity.** The producer retains the ability to make all decisions affecting the commodity, including movement, sale, and the request for a loan or LDP,
- **Risk of loss in the commodity.** The producer is responsible for loss or damage to the commodity. If the commodity is insured, any indemnity must be payable to the producer, and
- **Title to the commodity.** The producer has not sold or has not delivered the commodity or warehouse receipt to the buyer. Title may be considered to be transferred before the producer receives payment for the commodity. For example, title is

considered transferred if a producer executes an option to purchase without a provision in the agreement that states that title, risk, and beneficial interest remains with the producer until the buyer exercises this option to purchase and the option to purchase expires at the earlier of:

- (a) the maturity of any CCC loan secured by such commodity;
- (b) the date CCC claims title to such commodity; or
- (c) another date provided in the option.

Once beneficial interest in the commodity is lost, the commodity loses eligibility for a loan or LDP and remains ineligible even if the producer later regains beneficial interest.

For further information see the FSA Fact Sheet on Beneficial Interest Requirements For Loans and LDPs, contact a local USDA Service Center, or visit the FSA Web site at www.fsa.usda.gov.

Production Evidence

A producer who repays a loan at less than the loan rate plus accrued interest and other charges or receives an LDP must provide production evidence acceptable to CCC, such as evidence of sales, warehouse receipts, or load summary or assembly sheets.

Final Loan/LDP Availability Dates

Producers may obtain loans or receive LDPs on all or part of their

eligible production anytime during the loan availability period. The loan availability period runs from when the commodity is normally harvested (or sheared for wool and mohair) until specified dates in the following calendar year (e.g., for 2003-crop corn—May 31, 2004). The final loan/LDP availability dates for the respective commodities are listed in Table 3. **(See Table 3. Final Loan/LDP Availability Dates by Commodity).**

ADJUSTED GROSS INCOME AND PAYMENT LIMITATIONS

Adjusted Gross Income Limitation

Starting with the 2003 crop, individuals and entities whose previous 3-year average adjusted gross income (AGI) exceeds \$2.5 million are ineligible for many program benefits unless they can establish that at least 75 percent of their AGI is derived from agriculture. Program benefits for which individuals or entities exceeding the AGI limit will be ineligible include:

- Direct payments;
- Counter-cyclical payments;
- Loan deficiency payments;
- Marketing loan gains;
- Agricultural Management Assistance Program;
- Conservation Security Program;
- Conservation Reserve Program;
- Environmental Quality Incentives Program;
- Farmland Protection Program;
- Grassland Reserve Program;
- Ground and Surface Water Conservation Program;
- Wetland Reserve Program.

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Payment Limitations

The 2002 Act establishes limits on payments a “person” may receive from farm programs. The definition of “person” includes individual farmers, but also encompasses limited partnerships, corporations, and other types of organizations. The three-entity rule, carried over from previous legislation, limits to three the number of entities through which a “person” may receive payments.

The sum of LDPs and marketing loan gains is subject to a \$75,000-per-person payment limitation for each crop year as follows:

- \$75,000 total for wheat, corn, grain sorghum, barley, oats, upland cotton, rice, soybeans, other oilseeds, dry peas, lentils, and small chickpeas; and
- \$75,000 total for peanuts, wool, mohair, and honey.

For more information on payment limitations see the FSA Fact Sheet Payment Eligibility and Limitations, contact a local USDA Service Center, or visit the FSA website at www.fsa.usda.gov

Table 1. National Average Loan Rates, 2002-2007 Crops (per production unit)

Commodity	Production Unit	2002 and 2003	2004 through 2007
Wheat	bushel	\$2.80	\$2.75
Corn	bushel	\$1.98	\$1.95
Grain sorghum	bushel	\$1.98	\$1.95
Barley	bushel	\$1.88	\$1.85
Oats	bushel	\$1.35	\$1.33
Soybeans	bushel	\$5.00	\$5.00
Other Oilseeds	pound	\$0.096	\$0.093
Rice	hundredweight	\$6.50	\$6.50
Upland Cotton	pound	\$0.52	\$0.52
ELS Cotton	pound	\$0.7977	\$0.7977
Peanuts	short ton	\$355.00	\$355.00
Honey	pound	\$0.60	\$0.60
Wool, graded	pound	\$1.00	\$1.00
Wool, ungraded	pound	\$0.40	\$0.40
Mohair	pound	\$4.20	\$4.20
Dry peas	pound	\$6.33	\$6.22
Lentils	pound	\$11.94	\$11.72
Small chickpeas	pound	\$7.56	\$7.43

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Item	Loan Repayment Rate Scenario		
	Scenario 1	Scenario 2	Scenario 3
	dollars per bushel		
Loan rate	1.98	1.98	1.98
Loan rate plus interest	2.05	2.05	2.05
Posted County Price (PCP)	2.50	2.00	1.75
Lower of loan rate plus interest or PCP	2.05	2.00	1.75
Marketing Loan Gain or LDP rate	0.00	0.00	0.23

Table 3. Final Loan/LDP Availability Dates by Commodity

Final Loan/LDP Availability Date	Commodity
January 31	Mohair, Peanuts, and Wool
March 31	Barley, Canola, Crambe, Flaxseed, Honey, Oats, Rapeseed, Sesame, and Wheat
May 31	Corn, Dry peas, ELS cotton, Grain sorghum, Lentils, Mustard seed, Rice, Safflower, Small chickpeas, Soybeans, Sunflower seed, and Upland cotton

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